

CITY OF NORTHWOOD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

- Prepared By -

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CITY OF NORTHWOOD, IOWA

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CITY OF NORTHWOOD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Randy Severson	Mayor	Resigned
Jane Bloomingdale	Mayor (appointed 11/13/12, elected 1/29/13)	January 2014
Gary Nerlien	Mayor Pro Tem	Resigned
Doug Helgeland	Mayor Pro Tem	January 2016
Roger Rustad	Council Member	January 2014
Rhonda Taylor	Council Member	January 2014
Teresa George	Council Member	Resigned
Jane Bloomingdale	Council Member	Resigned to become Mayor
Gary Nerlien	Council Member	January 2016
Russell Meyer	Council Member	January 2016
Amber Julseth	Clerk/Treasurer	June 30, 2014
John Greve	Attorney	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Northwood, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the

aggregate remaining fund information of the City of Northwood as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northwood's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 26 through 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated October 28, 2013 on my consideration of the City of Northwood's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The City of Northwood's internal control over financial reporting and compliance.



Charles City, Iowa
October 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Northwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 8.7%, or approximately \$147,000 from fiscal year 2012 to fiscal year 2013. Other general receipts increased approximately \$380,000, while operating grants, contributions and restricted interest decreased approximately \$291,000.

Disbursements of the City's governmental activities increased 23.8%, or approximately \$417,000, in fiscal year 2013 from fiscal year 2012.

The City's total cash basis net position decreased 12.1%, or approximately \$339,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$362,000 and the cash basis net position of the business type activities increased by approximately \$23,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliation between the government-wide statement and the fund financial statement follows the fund financial statement.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds, including the Water, Sewer, Sewer Replacement, and Garbage Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,296,975 to \$1,934,477. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

(Expressed in Thousands)

	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 69	\$ 68
Operating grants, contributions and restricted interest	217	508
General receipts:		
Property tax	919	883
Local option sales tax	165	141
Unrestricted interest on investments	17	20
Other general receipts	445	65
Total receipts	<u>\$1,832</u>	<u>\$1,685</u>
Disbursements:		
Public safety	\$ 254	\$ 314
Public works	698	554
Health and social services	11	9
Culture and recreation	660	285
Community and economic development	128	137
General government	197	181
Debt service	222	273
Total disbursements	<u>\$2,170</u>	<u>\$1,753</u>
Change in cash basis net position before transfers	\$ (338)	\$ (68)
Transfers, net	<u>(24)</u>	<u>(33)</u>
Change in cash basis net position	\$ (362)	\$ (101)
Cash basis net position beginning of year	<u>2,296</u>	<u>2,397</u>
Cash basis net position end of year	<u>\$1,934</u>	<u>\$2,296</u>

The City's total receipts for governmental activities increased by 8.7%, or approximately \$147,000. The total cost of all programs and services increased approximately \$417,000, or 23.8%, with no new programs added this year. The increase in receipts was primarily the result of other general receipts during the year.

The cost of all governmental activities this year was approximately \$2,170,000 compared to approximately \$1,753,000 last year. However, as shown in the Statement of Activities and Net Position on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$1,884,720 because some of the cost was paid by those directly benefited from the programs (\$68,609) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$217,487). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from approximately \$1,685,000 to approximately \$1,832,000. The City paid for the remaining "public benefit" portion of governmental activities (\$1,084,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 182	\$ 174
Sewer	158	152
Garbage	121	119
Other	34	31
General receipts:		
Unrestricted interest on investments	5	6
Total receipts	<u>\$ 500</u>	<u>\$ 482</u>
Disbursements:		
Water	\$ 181	\$ 228
Sewer	154	168
Garbage	115	128
Other	50	47
Total disbursements	<u>\$ 500</u>	<u>\$ 571</u>
Change in cash basis net position before transfers	\$ -	\$ (89)
Transfers, net	<u>24</u>	<u>33</u>
Change in cash basis net position	\$ 24	\$ (56)
Cash basis net position beginning of year	<u>501</u>	<u>557</u>
Cash basis net position end of year	<u><u>\$ 525</u></u>	<u><u>\$ 501</u></u>

Total business type activities receipts for the fiscal year were approximately \$500,000 compared to approximately \$482,000 last year. The cash balance increased by approximately \$24,000 from the prior year. Total disbursements for the fiscal year decreased by 12.4% to a total of approximately \$500,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$1,891,561, a decrease of more than \$345,000 from last year's total of \$2,236,903. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$43 from the prior year to \$758,538. This increase was due to an increase in receipts, while disbursements decreased.

The Special Revenue, Road Use Tax Fund cash balance decreased by \$13,262 to \$138,873 during the fiscal year. This decrease was attributable to greater disbursements in the fiscal year.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$117,916, an increase from the previous year. The increase was the result of lower principal payments on TIF debt.

The Special Revenue, Revolving Loan Fund cash balance increased by \$932 to \$231,034. The increase is due to loans paid back.

The Debt Service, General Obligation Bonds Fund cash balance increased \$135 to \$11,027, due to decreased debt service payments.

The Capital Projects, 2009 GO Bond Fund cash balance decreased by \$496,665 to \$38,418. This decrease was the result of the completion of projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$4,044 to \$94,406, due primarily to a decrease in operating disbursements.

The Enterprise, Sewer Fund cash balance increased by \$6,112 to \$114,641, due primarily to a decrease in operating disbursements.

The Enterprise, Sewer Replacement Fund cash balance increased by \$1,881 to \$188,363, due primarily to interest income.

The Enterprise, Garbage Fund cash balance increased by \$6,611 to \$65,185, due to a decrease in operating disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 28, 2013 and resulted in an increase in disbursements and transfers out of \$368,065. The City increased revenues and other financing sources \$116,421. The City exceeded the amounts budgeted in the public works function.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$1,384,000 in bonds and other long-term debt outstanding, compared to approximately \$1,559,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

	June 30,	
	2013	2012
General obligation bonds	<u>\$ 1,384</u>	<u>\$ 1,559</u>

Debt decreased as a result of scheduled bond payments.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,384,000 is significantly below its constitutional debt limit of \$4,713,593.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Northwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Another concern evolves around increased energy costs for the ensuing year and beyond. The increased costs have added as much as thirty percent to segments of the budget. Holding the budget in line becomes challenging while attempting to maintain and improve city services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Amber Julseth, City Clerk, 627 Central, Northwood, Iowa 50459-1584.

Basic Financial Statements

CITY OF NORTHWOOD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

			Program Receipts		
			Charges	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements		for Service		
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Public safety	\$ 254,835	\$ -	\$ -	\$ -	-
Public works	697,490	-	202,687	-	-
Health and social services	11,122	12,761	-	-	-
Culture and recreation	660,389	55,848	14,800	-	-
Community and economic development	128,414	-	-	-	-
General government	196,827	-	-	-	-
Debt service	221,739	-	-	-	-
Total governmental activities	\$2,170,816	\$ 68,609	\$ 217,487	\$ -	-
Business type activities:					
Water	\$ 180,961	\$ 181,619	\$ -	\$ -	-
Sewer	153,750	157,755	-	-	-
Garbage	114,982	121,325	-	-	-
Other	50,487	34,336	-	-	-
Total business type activities	\$ 500,180	\$ 495,035	\$ -	\$ -	-
Total	\$2,670,996	\$ 563,644	\$ 217,487	\$ -	-

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (254,835)	\$ -	\$ (254,835)
(494,803)	-	(494,803)
1,639	-	1,639
(589,741)	-	(589,741)
(128,414)	-	(128,414)
(196,827)	-	(196,827)
(221,739)	-	(221,739)
<u>\$ (1,884,720)</u>	<u>\$ -</u>	<u>\$ (1,884,720)</u>
\$ -	\$ 658	\$ 658
-	4,005	4,005
-	6,343	6,343
-	(16,151)	(16,151)
<u>\$ -</u>	<u>\$ (5,145)</u>	<u>\$ (5,145)</u>
<u>\$ (1,884,720)</u>	<u>\$ (5,145)</u>	<u>\$ (1,889,865)</u>

CITY OF NORTHWOOD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

General Receipts and Transfers:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

- Restricted:
 - Nonexpendable:
 - Cemetery perpetual care
 - Expendable:
 - Streets
 - Urban renewal purposes
 - Debt service
 - Other purposes
- Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 610,456	\$ -	\$ 610,456
41,384	-	41,384
267,429	-	267,429
164,644	-	164,644
17,202	4,717	21,919
445,490	-	445,490
<u>(23,883)</u>	<u>23,883</u>	<u>-</u>
<u>\$ 1,522,722</u>	<u>\$ 28,600</u>	<u>\$ 1,551,322</u>
\$ (361,998)	\$ 23,455	\$ (338,543)
<u>2,296,475</u>	<u>501,409</u>	<u>2,797,884</u>
<u>\$ 1,934,477</u>	<u>\$ 524,864</u>	<u>\$ 2,459,341</u>
\$ 106,291	\$ -	\$ 106,291
138,873	-	138,873
117,916	-	117,916
11,027	-	11,027
511,586	-	511,586
<u>1,048,784</u>	<u>524,864</u>	<u>1,573,648</u>
<u>\$ 1,934,477</u>	<u>\$ 524,864</u>	<u>\$ 2,459,341</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Special Revenue		
			Urban	
			Renewal	
	General	Road Use	Tax	Revolving
		Tax	Increment	Loan
RECEIPTS:				
Property tax	\$ 442,680	\$ -	\$ -	\$ -
Tax increment financing	-	-	267,429	-
Other city tax	-	-	-	-
Licenses and permits	7,946	-	-	-
Use of money and property	14,141	833	-	-
Intergovernmental	14,800	202,687	-	-
Charges for service	68,609	-	-	-
Special assessments	2,054	-	-	-
Miscellaneous	431,831	-	-	932
Total receipts	<u>\$ 982,061</u>	<u>\$ 203,520</u>	<u>\$ 267,429</u>	<u>\$ 932</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 200,531	\$ -	\$ -	\$ -
Public works	200,369	217,069	-	-
Health and social services	10,988	-	-	-
Culture and recreation	409,340	-	-	-
Community and economic development	40,670	-	18,210	-
General government	176,737	-	-	-
Debt service	-	-	-	-
Total disbursements	<u>\$1,038,635</u>	<u>\$ 217,069</u>	<u>\$ 18,210</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (56,574)</u>	<u>\$ (13,549)</u>	<u>\$ 249,219</u>	<u>\$ 932</u>
Other financing sources (uses):				
Operating transfers in	\$ 117,787	\$ 287	\$ -	\$ -
Operating transfers out	(61,170)	-	(183,490)	-
Total other financing sources (uses)	<u>\$ 56,617</u>	<u>\$ 287</u>	<u>\$ (183,490)</u>	<u>\$ -</u>
Change in cash balances	\$ 43	\$ (13,262)	\$ 65,729	\$ 932
Cash balances beginning of year	<u>758,495</u>	<u>152,135</u>	<u>52,187</u>	<u>230,102</u>
Cash balances end of year	<u>\$ 758,538</u>	<u>\$ 138,873</u>	<u>\$ 117,916</u>	<u>\$ 231,034</u>
Cash Basis Fund Balances:				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Urban renewal purposes	-	-	117,916	-
Debt service	-	-	-	-
Streets	-	138,873	-	-
Other purposes	-	-	-	-
Assigned for:				
Cemetery	29,510	-	-	-
Library memorial trust	143,440	-	-	-
Other	290	-	-	231,034
Unassigned	<u>585,298</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 758,538</u>	<u>\$ 138,873</u>	<u>\$ 117,916</u>	<u>\$ 231,034</u>

See Notes to Financial Statements.

<u>Debt Service</u>	<u>Capital Projects</u>		
<u>General Obligation Bonds</u>	<u>2009 GO Bond</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 41,384	\$ -	\$ 167,779	\$ 651,843
-	-	-	267,429
-	-	164,644	164,644
-	-	-	7,946
-	4,816	341	20,131
-	-	-	217,487
-	-	-	68,609
-	-	-	2,054
-	3,030	13,423	449,216
<u>\$ 41,384</u>	<u>\$ 7,846</u>	<u>\$ 346,187</u>	<u>\$1,849,359</u>
\$ -	\$ -	\$ 54,304	\$ 254,835
-	240,546	39,506	697,490
-	-	134	11,122
-	225,656	25,393	660,389
-	35,000	34,534	128,414
-	-	20,090	196,827
221,739	-	-	221,739
<u>\$ 221,739</u>	<u>\$ 501,202</u>	<u>\$ 173,961</u>	<u>\$2,170,816</u>
<u>\$ (180,355)</u>	<u>\$ (493,356)</u>	<u>\$ 172,226</u>	<u>\$ (321,457)</u>
\$ 180,490	\$ -	\$ 40,000	\$ 338,564
-	(3,309)	(114,478)	(362,447)
<u>\$ 180,490</u>	<u>\$ (3,309)</u>	<u>\$ (74,478)</u>	<u>\$ (23,883)</u>
\$ 135	\$ (496,665)	\$ 97,748	\$ (345,340)
10,892	535,083	498,009	2,236,903
<u>\$ 11,027</u>	<u>\$ 38,418</u>	<u>\$ 595,757</u>	<u>\$1,891,563</u>
\$ -	\$ -	\$ 106,291	\$ 106,291
-	-	-	117,916
11,027	38,418	-	49,445
-	-	-	138,873
-	-	430,254	430,254
-	-	-	29,510
-	-	-	143,440
-	-	59,212	290,536
-	-	-	585,298
<u>\$ 11,027</u>	<u>\$ 38,418</u>	<u>\$ 595,757</u>	<u>\$1,891,563</u>

CITY OF NORTHWOOD, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Total governmental funds cash balances (page 14) \$1,891,563

*Amounts reported for governmental activities in the Cash Basis Statement
 of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

42,914

Cash basis net position of governmental activities (page 12) \$1,934,477

Change in cash balances (page 14) \$ (345,340)

*Amounts reported for governmental activities in the Cash Basis Statement
 of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(16,658)

Change in cash basis net position of governmental activities (page 12) \$ (361,998)

See Notes to Financial Statements.

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise			
			Sewer	
	Water	Sewer	Replacement	Garbage
Operating receipts:				
Charges for service	\$ 173,733	\$157,755	\$ -	\$121,325
Miscellaneous	7,886	-	-	-
Total operating receipts	<u>\$ 181,619</u>	<u>\$157,755</u>	<u>\$ -</u>	<u>\$121,325</u>
Operating disbursements:				
Governmental activities:				
Public safety	\$ -	\$ -	\$ -	\$ -
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Business type activities	180,961	153,750	-	114,982
Total operating disbursements	<u>\$ 180,961</u>	<u>\$153,750</u>	<u>\$ -</u>	<u>\$114,982</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 658	\$ 4,005	\$ -	\$ 6,343
Non-operating receipts:				
Interest on investments	1,886	607	1,881	268
Excess (deficiency) of receipts over (under) disbursements	\$ 2,544	\$ 4,612	\$ 1,881	\$ 6,611
Other financing sources:				
Operating transfers in	1,500	1,500	-	-
Change in cash balances	\$ 4,044	\$ 6,112	\$ 1,881	\$ 6,611
Cash balances beginning of year	90,362	108,534	186,482	58,574
Cash balances end of year	<u>\$ 94,406</u>	<u>\$114,646</u>	<u>\$ 188,363</u>	<u>\$ 65,185</u>
Cash Basis Fund Balances				
Committed for other purposes	\$ -	\$ -	\$ 188,363	\$ -
Unrestricted	94,406	114,646	-	65,185
Total cash basis fund balances	<u>\$ 94,406</u>	<u>\$114,646</u>	<u>\$ 188,363</u>	<u>\$ 65,185</u>

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>	<u>Internal Service Employee Health</u>
\$ 29,616	\$ 482,429	\$ -
4,720	12,606	-
<u>\$ 34,336</u>	<u>\$ 495,035</u>	<u>\$ -</u>
\$ -	\$ -	\$ 2,102
-	-	6,603
-	-	1,623
-	-	937
50,487	500,180	5,533
<u>\$ 50,487</u>	<u>\$ 500,180</u>	<u>\$ 16,798</u>
\$ (16,151)	\$ (5,145)	\$ (16,798)
<u>75</u>	<u>4,717</u>	<u>140</u>
\$ (16,076)	\$ (428)	\$ (16,658)
<u>20,883</u>	<u>23,883</u>	<u>-</u>
\$ 4,807	\$ 23,455	\$ (16,658)
<u>57,457</u>	<u>501,409</u>	<u>59,572</u>
<u>\$ 62,264</u>	<u>\$ 524,864</u>	<u>\$ 42,914</u>
\$ 41,752	\$ 230,115	\$ 42,914
20,512	294,749	-
<u>\$ 62,264</u>	<u>\$ 524,864</u>	<u>\$ 42,914</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The City of Northwood is a political subdivision of the State of Iowa located in Worth County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Northwood has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the North Iowa Area Council of Governments and the Worth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent, Cemetery Perpetual Care Fund.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Revolving Loan Fund is used to account for money loaned to businesses in the City.

The Debt Service, General Obligation Bonds Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects, 2009 GO Bond Fund is used to account for construction on the bridge project.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Sewer Replacement Fund accounts for funds reserved for future sewer repairs and replacements.

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's garbage system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Northwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **Summary of Significant Accounting Policies** - continued

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works function prior to amending.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 179,000	\$ 41,245
2015	182,000	36,640
2016	190,000	31,435
2017	199,000	26,005
2018	203,000	19,940
2019-2020	431,000	20,880
Total	<u>\$1,384,000</u>	<u>\$176,145</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(3) Bonds Payable - continued

The resolution providing for the issuance of the general obligation bonds includes the following provision:

- (a) At the option of the City, bonds due on the Drinking Water Bond issue of June 10, 2000 and Streets & Bridges issue of October 29, 2009, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2010 and June 1, 2017, respectively, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$49,017, \$50,647 and \$47,718, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare and Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$408 for single coverage and \$1,251 for family coverage. For the year ended June 30, 2013, the City contributed \$143,967 and plan members eligible for benefits did not contribute to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable and sick leave payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(6) Compensated Absences - continued

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$28,489
Comp time	5,353
Sick leave	<u>32,004</u>
Total	<u>\$65,846</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(7) Industrial Development Revenue Bonds

The City has issued a total of \$2,800,000 of multifamily elderly revenue bonds under the provision of Chapter 419 of the Code of Iowa, of which \$2,400,000 is outstanding at June 30, 2013. The bonds and related principal are payable solely by Lutheran Retirement Home, Inc., and the bond principal and interest do not constitute liabilities of the City.

(8) Economic Development

On August 1, 2003, the City loaned \$20,000 to Grass Lake Furniture Co. The loan proceeds were to be used to operate a retail business in Northwood. The loan is a non-interest bearing loan. Grass Lake Furniture Co. is obligated to repay the City in monthly installments of \$238 beginning August 1, 2004. The loan balance at June 30, 2013 was \$7,381.

On February 26, 2007, the City loaned \$18,000 to Worth Brewing Company, LLC. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Worth Brewing Company, LLC is obligated to repay the City \$8,000 in annual installments of \$1,335 beginning February 26, 2011. The remaining \$10,000 is forgivable after three years. The loan balance at June 30, 2013 was \$3,995.

On September 13, 2007, the City loaned \$16,000 to Grass Lake Furniture Co. The loan proceeds were to be used to operate a retail business in Northwood. The loan is a non-interest bearing loan. Grass Lake Furniture Co. is obligated to repay the City in monthly installments of \$190 beginning April 30, 2008. The loan balance at June 30, 2013 was \$14,095.

On September 15, 2010, the City loaned \$15,000 to Donald Pangburn D/B/A North Star Xpress. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Donald Pangburn is obligated to repay the City \$5,000 in two annual installments of \$2,500 beginning September 16, 2012. The remaining \$10,000 is forgivable after three years. The loan balance at June 30, 2013 was \$13,500.

On January 17, 2011, the City loaned \$9,871 to Manuel Ramirez, Shawna Seger, and Noe Garduno Flores D/B/A Tequila's Mexican Bar & Grill. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Tequila's Mexican Bar & Grill is obligated to repay the City \$4,035 in annual installments of \$1,645 beginning January 2014. The remaining \$4,936 is forgivable after three years. The loan balance at June 30, 2013 was \$4,035.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(8) Economic Development - continued

On March 9, 2011, the City loaned \$12,000 to Thomas Capranos D/B/A Northwood Laundromat. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Thomas Capranos is obligated to repay the City \$7,000 in annual installments of \$1,500 beginning March 10, 2012. The remaining \$5,000 is forgivable after five years. The loan balance at June 30, 2013 was \$4,000.

On April 25, 2012 the City loaned \$7,000 to Rick Rosenberg D/B/A Orion Fitness Center. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Rick Rosenberg is obligated to repay the City \$4,000 in one annual installment of \$1,000 beginning April 25, 2013 and two annual installments of \$1,500 beginning April 25, 2014. The remaining \$3,000 is forgivable after three years. The loan balance at June 30, 2013 was \$6,000.

On November 5, 2012 the City loaned \$8,800 to Rick Rosenberg D/B/A Orion Fitness Center. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Rick Rosenberg is obligated to repay the City \$6,800 in one annual installment of \$2,000 beginning November 5, 2014 and two annual installments of \$2,400 beginning November 5, 2015. The remaining \$2,000 is forgivable after three years. The loan balance at June 30, 2013 was \$8,800.

The City has funds set aside for various housing assistance programs within the City. Applications are reviewed by the council. The amount expended by the City for the 2013 fiscal year was \$25,734.

The City allocated funds for business development within the City. Applications are considered by a separate business development committee. The amount expended by the City for the 2013 fiscal year was \$8,800.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$11,634 during the year ended June 30, 2013.

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(11) Interfund Transfers - continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax -	
	Property Tax Relief	\$ 76,000
	Local Option Sales Tax -	
	Infrastructure	38,478
		<u>\$ 114,478</u>
	Capital Project:	
	2009 GO Bond	3,309
		<u>\$ 117,787</u>
Special Revenue:		
Housing Assistance		
Program	General	\$ 20,000
Revitalization	General	20,000
Road Use Tax	General	287
		<u>\$ 40,287</u>
Debt Service:		
General Obligation		
Bonds	Special Revenue:	
	Urban Renewal Tax Increment	<u>\$ 180,490</u>
Enterprise:		
Water	Special Revenue:	
	Urban Renewal Tax Increment	<u>\$ 1,500</u>
Sewer	Urban Renewal Tax Increment	<u>\$ 1,500</u>
Taxi	General	<u>\$ 20,883</u>
Total		<u>\$ 362,447</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(12) Commitments

At June 30, 2013, the following commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Windows	\$ 17,324	\$ -
Uptown park shelter	47,208	9,456
	<u>\$ 64,532</u>	<u>\$ 9,456</u>

(13) Subsequent Events

On September 24, 2013, the City approved a labor bid to remove and replace sidewalks for \$8,650.

On October 8, 2013 the City approved the flooring bid for City Hall entry and bathrooms for \$1,513.

Other Information

CITY OF NORTHWOOD, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 651,843	\$ -	\$ -
Tax increment financing	267,429	-	-
Other city tax	164,644	-	-
Licenses and permits	7,946	-	-
Use of money and property	20,131	4,857	140
Intergovernmental	217,487	-	-
Charges for service	68,609	482,429	-
Special assessments	2,054	-	-
Miscellaneous	449,216	12,606	-
Total receipts	<u>\$ 1,849,359</u>	<u>\$ 499,892</u>	<u>\$ 140</u>
DISBURSEMENTS:			
Public safety	\$ 254,835	\$ 2,102	\$ 2,102
Public works	697,490	6,603	6,603
Health and social services	11,122	-	-
Culture and recreation	660,389	1,623	1,623
Community and economic development	128,414	-	-
General government	196,827	937	937
Debt service	221,739	-	-
Business type activities	-	505,713	5,533
Total disbursements	<u>\$ 2,170,816</u>	<u>\$ 516,978</u>	<u>\$ 16,798</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (321,457)	\$ (17,086)	\$ (16,658)
Other financing sources, net	<u>(23,883)</u>	<u>23,883</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (345,340)	\$ 6,797	\$ (16,658)
Balances beginning of year	<u>2,236,903</u>	<u>560,981</u>	<u>59,572</u>
Balances end of year	<u>\$ 1,891,563</u>	<u>\$ 567,778</u>	<u>\$ 42,914</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 651,843	\$ 607,509	\$ 607,509	\$ 44,334
267,429	275,000	275,000	(7,571)
164,644	154,110	154,110	10,534
7,946	4,275	4,275	3,671
24,848	31,000	31,000	(6,152)
217,487	213,540	213,540	3,947
551,038	627,549	627,549	(76,511)
2,054	6,530	6,530	(4,476)
461,822	348,800	465,221	(3,399)
<u>\$2,349,111</u>	<u>\$2,268,313</u>	<u>\$ 2,384,734</u>	<u>\$ (35,623)</u>
\$ 254,835	\$ 303,350	\$ 308,350	\$ 53,515
697,490	374,167	644,959	(52,531)
11,122	20,052	25,052	13,930
660,389	410,423	809,237	148,848
128,414	253,529	253,529	125,115
196,827	208,782	213,782	16,955
221,739	221,640	222,640	901
500,180	1,257,893	940,352	440,172
<u>\$2,670,996</u>	<u>\$3,049,836</u>	<u>\$ 3,417,901</u>	<u>\$ 746,905</u>
\$ (321,885)	\$ (781,523)	\$ (1,033,167)	\$ 711,282
<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
\$ (321,885)	\$ (781,523)	\$ (1,033,167)	\$ 711,282
<u>2,738,312</u>	<u>2,702,285</u>	<u>2,738,310</u>	<u>2</u>
<u>\$2,416,427</u>	<u>\$1,920,762</u>	<u>\$ 1,705,143</u>	<u>\$ 711,284</u>

CITY OF NORTHWOOD, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$368,065. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

Supplementary Information

CITY OF NORTHWOOD, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Special</u>	
	<u>Employee</u>	<u>Local Option</u>
	<u>Benefits</u>	<u>Sales Tax</u>
		<u>Property</u>
		<u>Tax Relief</u>
RECEIPTS:		
Property tax	\$ 167,779	\$ -
Other city tax	-	82,322
Uses of Money and Property	-	-
Miscellaneous	-	-
Total receipts	<u>\$ 167,779</u>	<u>\$ 82,322</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 54,304	\$ -
Public works	39,506	-
Health and social services	134	-
Culture and recreation	25,393	-
Community and economic development	-	-
General government	20,090	-
Total disbursements	<u>\$ 139,427</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 28,352</u>	<u>\$ 82,322</u>
Other financing sources (uses):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	(76,000)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (76,000)</u>
Change in cash balances	\$ 28,352	\$ 6,322
Cash balances beginning of year	<u>77,062</u>	<u>144,619</u>
Cash balances end of year	<u>\$ 105,414</u>	<u>\$ 150,941</u>
Cash Basis Fund Balances:		
Nonspendable - Cemetery perpetual care	\$ -	\$ -
Restricted for other purposes	105,414	150,941
Assigned for:		
Housing assistance	-	-
Revitalization	-	-
Total cash basis fund balances	<u>\$ 105,414</u>	<u>\$ 150,941</u>

See Accompanying Independent Auditor's Report.

Revenue			Permanent	
Local Option Sales Tax Infrastructure	Housing Assistance Program	Revitalization	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ -	\$ 167,779
82,322	-	-	-	164,644
-	-	-	341	341
-	6,638	5,335	1,450	13,423
<u>\$ 82,322</u>	<u>\$ 6,638</u>	<u>\$ 5,335</u>	<u>\$ 1,791</u>	<u>\$ 346,187</u>
\$ -	\$ -	\$ -	\$ -	\$ 54,304
-	-	-	-	39,506
-	-	-	-	134
-	-	-	-	25,393
-	25,734	8,800	-	34,534
-	-	-	-	20,090
<u>\$ -</u>	<u>\$ 25,734</u>	<u>\$ 8,800</u>	<u>\$ -</u>	<u>\$ 173,961</u>
<u>\$ 82,322</u>	<u>\$ (19,096)</u>	<u>\$ (3,465)</u>	<u>\$ 1,791</u>	<u>\$ 172,226</u>
\$ -	\$ 20,000	\$ 20,000	\$ -	\$ 40,000
(38,478)	-	-	-	(114,478)
<u>\$ (38,478)</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ (74,478)</u>
\$ 43,844	\$ 904	\$ 16,535	\$ 1,791	\$ 97,748
<u>130,055</u>	<u>12,522</u>	<u>29,251</u>	<u>104,500</u>	<u>498,009</u>
<u>\$ 173,899</u>	<u>\$ 13,426</u>	<u>\$ 45,786</u>	<u>\$ 106,291</u>	<u>\$ 595,757</u>
\$ -	\$ -	\$ -	\$ 106,291	\$ 106,291
173,899	-	-	-	430,254
-	13,426	-	-	13,426
<u>-</u>	<u>-</u>	<u>45,786</u>	<u>-</u>	<u>45,786</u>
<u>\$ 173,899</u>	<u>\$ 13,426</u>	<u>\$ 45,786</u>	<u>\$ 106,291</u>	<u>\$ 595,757</u>

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise		
	Taxi	Meter Deposit	Total
Operating receipts:			
Charges for service	\$ 29,616	\$ -	\$ 29,616
Miscellaneous	-	4,720	4,720
Total operating receipts	\$ 29,616	\$ 4,720	\$ 34,336
Operating disbursements:			
Business type activities	48,111	2,376	50,487
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (18,495)	\$ 2,344	\$ (16,151)
Non-operating receipts:			
Uses of money and property	-	75	75
Excess (deficiency) of receipts Over (under) disbursements	\$ (18,495)	\$ 2,419	\$ (16,076)
Operating transfers in	20,883	-	20,883
Change in cash balances	\$ 2,388	\$ 2,419	\$ 4,807
Cash balances beginning of year	18,124	39,333	57,457
Cash balances end of year	<u>\$ 20,512</u>	<u>\$41,752</u>	<u>\$ 62,264</u>
Cash Basis Fund Balances:			
Unrestricted	\$ 20,512	\$ -	\$ 20,512
Committed for other purposes	-	41,752	41,752
Total cash basis fund balances	<u>\$ 20,512</u>	<u>\$41,752</u>	<u>\$ 62,264</u>

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Streets & Bridges	10-29-09	1.50 - 3.50%	\$ 900,000
Drinking Water	6-10-00	3.53	1,690,000
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 740,000	\$ -	\$ 85,000	\$ 655,000	\$ 21,160	\$ -
819,000	-	90,000	729,000	24,570	-
<u><u>\$1,559,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 175,000</u></u>	<u><u>\$1,384,000</u></u>	<u><u>\$ 45,730</u></u>	<u><u>\$ -</u></u>

CITY OF NORTHWOOD, IOWA
BOND MATURITIES
JUNE 30, 2013

GENERAL OBLIGATION BONDS

Year Ending June 30,	Drinking Water		Streets & Bridges		Total
	Issued June 10, 2000		Issued October 29, 2009		
	Interest Rates	Amount	Interest Rates	Amount	
2014	3.53%	\$ 94,000	2.10%	\$ 85,000	\$ 179,000
2015	3.53	97,000	2.70	85,000	182,000
2016	3.53	100,000	2.70	90,000	190,000
2017	3.53	104,000	3.10	95,000	199,000
2018	3.53	108,000	3.10	95,000	203,000
2019	3.53	111,000	3.30	100,000	211,000
2020	3.53	115,000	3.50	105,000	220,000
Total		\$ 729,000		\$ 655,000	\$1,384,000

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property tax	\$ 651,843	\$ 613,134	\$ 601,593	\$ 606,648
Tax increment financing	267,429	270,172	268,943	246,761
Other city tax	164,644	140,556	153,190	132,862
Licenses and permits	7,946	5,193	4,620	6,110
Use of money and property	20,131	22,144	28,086	31,674
Intergovernmental	217,487	244,944	254,354	458,205
Charges for service	68,609	65,555	66,583	59,726
Special assessments	2,054	330	-	-
Miscellaneous	449,216	341,158	391,034	221,006
Total	<u>\$1,849,359</u>	<u>\$1,703,186</u>	<u>\$1,768,403</u>	<u>\$1,762,992</u>
Disbursements:				
Operating:				
Public safety	\$ 254,835	\$ 314,332	\$ 350,436	\$ 269,340
Public works	697,490	553,585	431,830	363,250
Health and social services	11,122	9,332	15,263	11,285
Culture and recreation	660,389	285,211	284,634	349,751
Community and economic development	128,414	136,762	148,524	151,167
General government	196,827	180,742	208,819	149,034
Debt Service	221,739	272,777	304,303	231,916
Capital projects	-	-	7,571	438,989
Total	<u>\$2,170,816</u>	<u>\$1,752,741</u>	<u>\$1,751,380</u>	<u>\$1,964,732</u>

See Accompanying Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 601,719	\$ 532,291	\$ 548,070	\$ 504,301	\$ 446,007	\$ 391,226
239,192	261,044	284,207	288,698	331,514	354,667
153,892	148,842	154,150	96,949	103,304	87,758
5,555	4,701	6,747	5,800	7,800	4,871
39,178	72,070	81,120	51,625	31,626	34,823
283,809	211,205	195,470	200,687	200,824	439,701
59,881	54,376	52,051	54,527	67,011	73,901
-	92	588	2,428	2,298	10,734
402,190	353,790	395,172	171,404	118,575	53,389
<u>\$1,785,416</u>	<u>\$1,638,411</u>	<u>\$1,717,575</u>	<u>\$1,376,419</u>	<u>\$1,308,959</u>	<u>\$1,451,070</u>
\$ 310,689	\$ 283,158	\$ 230,440	\$ 215,760	\$ 213,785	\$ 209,604
369,727	312,772	282,887	276,193	259,220	186,896
8,109	6,626	1,490	18,014	366	-
443,912	452,149	240,473	190,528	175,964	186,557
170,782	87,495	82,676	127,399	145,226	983,602
159,063	133,933	155,033	169,536	146,082	115,983
292,050	294,816	281,474	275,433	336,207	190,141
100,000	-	-	56,679	-	-
<u>\$1,854,332</u>	<u>\$1,570,949</u>	<u>\$1,274,473</u>	<u>\$1,329,542</u>	<u>\$1,276,850</u>	<u>\$1,872,783</u>



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Northwood, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated October 28, 2013. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Northwood's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Northwood's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Northwood's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Northwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There are no deficiencies described in the accompanying Schedule of Findings that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Northwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Northwood's Responses to Findings

The City of Northwood's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City of Northwood's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Northwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa
October 28, 2013

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Countersignature of Checks - Checks are prepared and signed by one individual.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will investigate the alternatives.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended prior to disbursements exceeding the budget in the future.

Conclusion - Response accepted.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

- (2) Questionable Disbursements - I noted a certain disbursement I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Flower Zone by Connie	Flower arrangements for gifts/memorials	\$ 50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will investigate this further.

Conclusion - Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Severson, Mayor, Co-owner of Northwood Lumber	Supplies	\$7,609
Jim Meland, Employee, Equipment Rental	Rental	4,025

In accordance with Chapter 362.5 (3)(k) of the Code of Iowa, the transactions with Randy Severson and Jim Meland may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

The council went into closed session March 12, 2013. However, there was not a roll call vote of council member prior to entering into the closed session as required by Chapter 21 of the Code of Iowa.

Recommendation - The City should comply with the requirements of the Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements for closed sessions.

Conclusion - Response accepted.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Health Insurance Plan - The City has a health insurance plan that is partially self-funded. Chapter 509A.15 of the Code of Iowa requires that for this type of plan the City must file a Certificate of Compliance with the Insurance Commissioner of Iowa. I noted that this was not filed.

Recommendation - The Certificate of Compliance should be filed as required by the Code.

Response - We will investigate this.

Conclusion - Response accepted.

- (9) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.

In addition, the following exception was noted:

The amount reported by the City as TIF outstanding was overstated by \$213,676.

Recommendation - The City should ensure debt amounts reported on the Levy Authority Summary agree with City's records.

Response - This item will be corrected on the next year's report.

Conclusion - Response accepted.